

## Message Text

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ACTION AF-10

INFO OCT-01 ISO-00 XMB-02 EB-08 SSO-00 COME-00 TRSE-00  
/021 W

-----072793 111140Z /65

O 111044Z MAR 78  
FM AMEMBASSY LUSAKA  
TO SECSTATE WASHDC IMMEDIATE 7822

C O N F I D E N T I A L LUSAKA 0788

E.O. 11652: GDS  
TAGS: EFIN ZA US  
SUBJ: POSSIBLE CUT-OFF OF EXIM DISBURSEMENTS ON REVOLVING  
SUPPLIER CREDITS

REF: STATE 060570

1. EMBASSY CAN APPRECIATE EXIM CONCERN ABOUT ECONOMIC  
SITUATION BUT HAS RESERVATIONS ABOUT SUSPENSION OF DIS-  
BURSEMENTS. DEBT RESCHEDULING CERTAINLY EXISTS AS  
POSSIBILITY BUT EMBASSY NOT AWARE OF ANY IMMEDIATE PLANS  
OR REQUEST BY GRZ TO DO SO. ANY INFO DEPARTMENT OAS  
AVAILABLE FROM IMF OR OTHER SOURCES ON THIS WOULD BE  
USEFUL TO OUR ANALYSIS OF SITUATION.

2. BASED ON INFO IN THE LATEST AVAILABLE EXIM LOAN ETATEMENT  
FOR ZAMBIA, WE ASSUME SUPPLIER CREDITS INVOLVED ARE THOSE  
FOR NCCM AND RCM MINING COMPANIES. IF THIS IS THE CASE,  
EMBASSY HAS FOLLOWING CONCERNS ABOUT IMPACT OF A CUTOFF,  
HOWEVER SMALL AND FOR HOWEVER LONG.

A. ACTION BY EXIM COULD PRECIPITATE SIMILAR REACTION BY  
OTHER FINANCIAL INSTITUTIONS AND CREATE EVEN MORE PROBLEMS  
FOR THE MINES. DESPITE OPERATING AT A LOSS, MINES PROVIDE  
THE ONLY REAL SOURCE OF FOREIGN EXCHANGE TO ZAMBIA. WITH-

OUT DESPERATELY NEEDED SUPPLIERS CREDITS THEINES' PERFORMANCE  
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IS BOUND TO SUFFER. EXIM'S CUTOFF BY ITSELF WILL HAVE A  
NEGATIVE IMPACT EVEN IF OTHERS DID NOT FOLLOW SUIT. EMBASSY  
UNDERSTANDS CITIBANK CONSIDERING 5 YEAR \$10 MILLION FACILITY  
AT BOTH RCM AND NCCM. PROBLEM OF WAIVER OF  
SOVEREIGN

IMMUNITY HAS BEEN RESOLVED TO SATISFACTION OF REGIONAL

CITIBANK

OFFICIALS BY HAVING WAIVER SIGNED BY ZIMCO,  
A GRZ HOLDING COMPANY RATHER THAN MINISTRY OF FINANCE OR  
BANK OF ZAMBIA. EXIM ACTION AT THIS TIME COULD HAVE AN  
IMPACT ON CITIBANK DECISION TO GO AHEAD.

B. INABILITY TO PROCEED WITH PURCHASES FINANCED BY ANY OF  
THESE LOANS WOULD HAVE AN EFFECT ON MINING COMPANIES

ABILITY TO PURCHASE NEEDED SPARES AND EQUIPMENT. THIS

COULD AFFECT MINING PRODUCTION AND FOREIGN EXCHANGE REVENUES,  
THUS AGGRAVATING AN ALREADY SERIOUS SITUATION FOR SUPPLIERS

AND CREDITORS ALIKE. IN SHORT, ABILITY TO PAY DEPENDS ON

ABILITY TO PRODUCE.

C. IN THE LONGER TERM, EXIM CUTOFF AT THIS TIME COULD DRIVE  
US SUPPLIERS OUT OF THE MARKET AND DEPRIVE THEM OF A FUTURE  
MARKET. MINING COMPANIES ARE ADVISING CURRENT SUPPLIERS  
THAT IF THEY STICK WITH ZAMBIA DURING THIS DIFFICULT PERIOD  
THEY WILL BE ASSURED OF A CONTINUED MARKET IN BETTER TIMES.  
THE IMPLICATION IS THAT IF SUPPLIERS BACK OUT NOW, THEY  
WILL FIND IT DIFFICULT IF NOT IMPOSSIBLE TO RETURN.  
SUSPENSION OF DISBURSEMENTS BY EXIM AT THIS TIME COULD FORCE  
THE MINES TO LOOK FOR ALTERNATIVE SUPPLIERS NOT ALREADY IN  
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THE ZAMBIAN MARKET. WITH NO CURRENT PAYMENTS BACKLOG THESE  
SUPPLIERS MIGHT TAKE THIS OPPORTUNITY TO GET INTO THE MARKET.  
OBVIOUSLY, ALTERNATIVE SOURCES ARE NOT AVAILABLE FOR  
EVERYTHING AND THE MINES WOULD PREFER TO STAY WITH STANDARD

OPERATING LINES. HOWEVER, LOSS OF MARKETS, PRESENT OR FUTURE, CANNOT  
BE DISCOUNTED AS AN EFFECT OF AN EXIM DECISION TO CUT OFF  
DISBURSEMENTS.

D. IN ABSENCE OF ANY HARD INFORMATION, EMBASSY CAN ONLY  
SPECULATE ON EXIM TIMING VIS-A-VIS RECENTLY CONCLUDED IMF  
NEGOTIATIONS WITH ZAMBIA. IF ZAMBIA AND IMF ARE CLOSE  
TO AGREEMENT (AND DEBT RESCHEDULING IS NOT INCLUDED) EXIM  
MOVE MIGHT BE PREMATURE. PRESUMABLY PROBLEM OF OUTSTANDING  
DEBT WILL BE ADDRESSED IN AGREEMENT. IF, ON THE OTHER  
HAND, ZAMBIA AND IMF HAVE REACHED AN IMPASSE, ZAMBIA'S  
ABILITY TO MAINTAIN CREDITWORTHINESS WOULD BE SERIOUSLY  
HAMPERED.

3. THUS THE EMBASSY BELIEVES DECISION TO CUT OFF DISBURSE-  
MENTS MAY BE PREMATURE AND WOULD CERTAINLY BE DAMAGING TO  
ZAMBIA BY ITSELF. IT COULD ALSO PRECIPITATE EVEN MORE

HARMFUL DECISIONS BY OTHERS. AT A TIME WHEN WE ARE ABOUT  
TOSIGN A 30 MILLION PROGRAM LOAN DESIGNED TO BOLSTER  
ZAMBIA'S EXCHANGE POSITION, SUCH A MOVE APPEARS COUNTER-  
PRODUCTIVE.

4. GIVEN THE CURRENT ECONOMIC SITUATION WE RECOGNIZE THAT  
FROM THE EXIM POINT OF VIEW THERE MAY BE SOME SHORT TERM  
BENEFIT IN CUTTING OFF DISBURSEMENTS AT THIS TIME. HOWEVER,  
THE LONG TERM INTEREST OF THE US AND EXIM ITSELF IN HELPING  
TO MAINTAIN ZAMBIA'S ECONOMY IN THE FACE OF A CONTINUED  
COPPER PRICE SLUMP AND SUPPORT OF A SOLUTION TO THE VOLATILE  
POLITICAL/MILITARY SITUATION IN RHODESIA ARGUES AGAINST  
SUCH A MOVE NOW.

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5. SINCE IMF DECISION LIKELY TO BE FORTHCOMING SHORTLY,  
WE SUGGEST EXIM AWAIT THAT AND ASSESS THE SITUATION AGAIN  
WHEN IT IS TAKEN.

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## Message Attributes

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**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** EXPENDITURES, LOANS  
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**Decaption Date:** 20 Mar 2014  
**Decaption Note:** 25 YEAR REVIEW  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
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**Disposition Reason:**  
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**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Expiration:**  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014